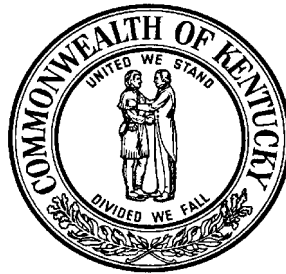


**REPORT OF THE AUDIT OF THE
GRAYSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Gary Logsdon, Grayson County Judge/Executive

Honorable Joe Brad Hudson, Grayson County Sheriff

Members of the Grayson County Fiscal Court

The enclosed report prepared by Stephens & Lawson, PSC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Grayson County, Kentucky, for the year ended December 31, 2001.

We engaged Stephens & Lawson, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Stephens & Lawson, PSC, evaluated the Grayson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
GRAYSON COUNTY SHERIFF**

Calendar Year 2001

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAYSON COUNTY SHERIFF

Calendar Year 2001

The Grayson County Sheriff's fee audit was contracted to Stephens & Lawson, PSC through a request for proposal (RFP). We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Revenue for the calendar year totaled \$765,486 and disbursements totaled \$765,483, leaving excess fees of \$3.

Report Comment

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Sheriff's K-9 Dog Fund

The balance at December 31, 2000 was \$1,953. The Sheriff received \$17,228 during the calendar year 2001, while expenditures were \$15,086, leaving a balance at December 31, 2001 of \$4,095. These funds are awarded to the sheriff through community donations and seizures of property.

Deposits

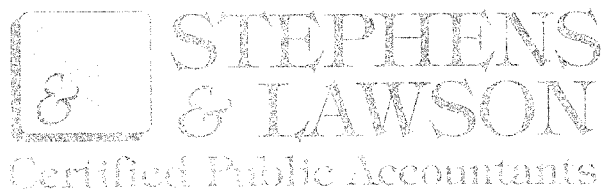
The Sheriff's deposits were uninsured in the amount of \$142,136 on December 7, 2001.

Other

Effective January 1, 2001, the fee-pooling system was abolished for the Sheriff.

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To the People of Kentucky
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Independent Auditors' Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Grayson County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of compliance with certain laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Gary Logsdon, Grayson County Judge/Executive
Honorable Joe Brad Hudson, Grayson County Sheriff
Members of the Grayson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following area of noncompliance:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

Stephens & Lawson, P.S.C.

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
September 18, 2002

GRAYSON COUNTY
JOE BRAD HUDSON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

Federal Grants		
Police Hiring Supplement Program		\$ 152,181
State Grants		4,361
State Grants - KLEFP		44,375
State Fees For Services:		
Finance and Administration Cabinet		26,123
Cabinet for Human Resources		4,564
Circuit Court Clerk -		
Fines and Fees Collected	\$14,670	
Sheriff Security Services	<u>13,025</u>	27,695
Fiscal Court		180
County Clerk - Delinquent Taxes		3,584
Commission on Taxes Collected		221,863
Fees Collected For Services -		
Auto Inspections	\$4,640	
Accident and Police Reports	1,588	
Carrying Concealed Deadly Weapon Permits	9,155	
Miscellaneous	2,923	
Serving Papers	26,065	
Sheriff's 10% add-on fee	<u>24,806</u>	69,177
Interest Earned - Tax Account		4,383
State Advancement		207,000
Total Receipts (Carried Forward)	\$	<u>765,486</u>

The accompanying notes are an integral part of the Financial Statement

GRAYSON COUNTY
JOE BRAD HUDSON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 2001
(Continued)

Total Receipts (Brought Forward)		\$	<u>765,486</u>
<u>Disbursements</u>			
Operating Disbursements -			
Personnel Services -			
Deputies' Salaries		\$	165,198
Other Salaries			26,716
Part-Time Salaries			1,824
Hazardous Duty and Withholdings			141,147
Supplies and Materials -			
Office Materials and Supplies	\$474		
Uniforms	<u>23,352</u>		23,826
Auto Expense-			
Vehicle Maintenance			29,066
Other Charges-			
Carrying Concealed Deadly Weapon Permits	\$5,580		
Dues	1,036		
Ammunition	1,627		
Bond	1,398		
Computer Expense	12,273		
Constables	15,460		
Conventions	3,250		
Gasoline	35,101		
Phone/Paging	2,410		
Medical	628		
Advertising	409		
Transporting Prisoners	8,315		
Uniforms	<u>4,324</u>		91,811
Debt Service -			
State Advancement			207,000
Capital Outlay			
Vehicle			<u>15,400</u>
Total Disbursements		\$	<u>701,988</u>

The accompanying notes are an integral part of the Financial Statement

GRAYSON COUNTY
JOE BRAD HUDSON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 2001
(Continued)

Net Receipts	\$ 63,498
Less: Statutory Maximum	<u>63,495</u>
Excess Fees Due County for Calendar Year 2001	\$ 3
Payment to County Treasurer	<u>-</u>
Balance Due at Completion of Audit	<u><u>\$ 3</u></u>

The accompanying notes are an integral part of the Financial Statement

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

C. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of an accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NOTE 2 - EMPLOYEE RETIREMENT SYSTEM

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate was 16.78 the first six months of the year and 16.28 percent thereafter.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

NOTE 3 - DEPOSITS

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66-480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 7, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$142,136 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at the depository institution in question as of December 7, 2001.

	Bank Balance
Collateralized with securities held by pledging depository institution in the county officials name.	\$ 3,255,000
Uncollateralized and uninsured	<u>142,136</u>
Total Deposits	<u>\$ 3,397,136</u>

In 1999, the Sheriff was awarded a Federal Universal Hiring Grant for the purpose hiring two new full time and one part time officers. The total grant award was for \$262,828. During 2001, the Sheriff received and expended \$152,181 of this award.

NOTE 5 - PURCHASE AGREEMENT

On November 11, 2001, the Sheriff entered into a purchase agreement with Kansas State Bank for two new vehicles. The total purchase price is \$49,400, \$10,966 was paid at closing leaving a balance at December 31, 2001 of \$38,434. Principle payments will be made on November 20 of each year as follows:

2002	\$ 5,885
2003	10,274
2004	10,839
2005	<u>11,436</u>
Total	<u>\$ 38,434</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

NOTE 6 - SHERIFF'S K-9 DOG FUND

The Sheriff maintained a K-9 Dog Fund. The balance at December 31, 2000 was \$1,953. The Sheriff received \$17,228 and expended \$15,086 during calendar year 2001, leaving a balance at December 31, 2001 of \$4,095. These funds are awarded to the Sheriff through community donations and seizures of property.

COMMENT AND RECOMMENDATION

GRAYSON COUNTY
JOE BRAD HUDSON, SHERIFF
COMMENT AND RECOMMENDATION

Calendar Year 2001

STATE LAWS AND REGULATIONS

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 7, 2001, \$142,136 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Sheriff's Response:

We will discuss this matter with the bank to ensure that the pledge is sufficient to cover deposits in the future.

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**REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Gary Logsdon, Grayson County Judge/Executive
Honorable Joe Brad Hudson, Grayson County Sheriff
Members of the Grayson County Fiscal Court

Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of the Financial
Statement Performed in Accordance With Government Auditing Standards

We have audited the Grayson County Sheriff as of December 31, 2001, and have issued our report thereon dated September 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Grayson County Sheriff's financial statement as of December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Grayson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully Submitted,

Stephens & Lawson, P.S.C

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
September 18, 2001